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INFO RUCNIRA/IRAN COLLECTIVE

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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001073

SIPDIS

E.O. 12958: DECL: 04/20/2019

TAGS: ETRD EINV ECON PGOV KCOR IR IZ

SUBJECT: SULEYMANIYAH BUSINESS STRUGGLE TO COMPETE WITH IRAN

REF: A. BAGHDAD 196

1B. BAGHDAD 495

1C. BAGHDAD 1039

Classified By: Acting Political-Military Counselor Philip Kosnett for reasons 1.4 (b), (d), (e).

11. (C) Summary: Suleymaniyah businessmen claim their markets are flooded by Iranian products because corruption, lack of government support for the private sector, and a cumbersome regulatory environment hinder their ability to compete. Businessmen representing a variety of industries told PRTOff and Emboff on April 15 that they need a business environment friendlier to the private sector to be able to compete with lower-priced imports and reduce the Iranian economic footprint in Suleymaniyah. End summary.

Background

12. (C) The region's reliance on low-priced imports from Iran) and higher-quality, more expensive imports from Turkey) is a legacy of statist economic policies that hobbled domestic industry under Saddam. When the Kurdistan region achieved autonomy in 1991, the region had little industrial base. The agricultural sector, traditional to begin with, was largely destroyed by Saddam's Anfal campaign, which ruined the countryside and forced rural residents into larger towns. The regional government absorbed the excess labor onto public-sector payrolls to keep social order among a large, uprooted population that had no other means of earning a living. To meet their daily needs, consumers turned to imports -- cheap goods from Iran and, when they could afford it, higher-quality goods from Turkey and China (refs A and B).

Corruption and public dis-service

¶3. (C) On April 15, PRToff and Emboff met with six Suleymaniyah businessmen representing industries including telecommunications, construction, consumer goods and banking.

They outlined the difficulties they continue to face in doing business in the KRG including a high cost of business compared to Iran, government corruption and mismanagement, and laws that hinder private-sector expansion. The businessmen argued that KRG mismanagement is keeping non-Iranian foreign investment, which they desperately seek, out of the region.

¶4. (C) AsiaCell chairman Faruk Mustafa Rasool and his partner Omar Darwish described the difficulty of getting electricity and water connections to new factories. For example, Darwish said, when the KRG was either unable or unwilling to connect a new iron factory in Suleymaniyah to public water lines, he drilled three wells to support production. That solution worked until a drought dried the wells, and he had to close the factory until the rains returned. Iran, he claimed, subsidizes water and electricity for his competitors, allowing them to undercut him on price. Chamber of Commerce Chairman Hassan Hawrami also blamed the high cost of doing business on KRG policies such as generous public-sector retirement benefits and job security that lure away the most effective employees.

¶5. (C) The business representatives also cited KRG mismanagement, corruption (Ref C), and bribery as hurdles to competing with Iranian products. Rasool told us that after paying the electric bills regularly for one of his factories, he was forced to pay a \$5 million "fee" to allegedly cover the cost of electricity he'd already purchased. Rasool, who partners with a French company to operate two cement factories, said he is frequently embarrassed when he has to explain KRG peculiarities to his French partner. Rasool also claimed that NOKAN, a holding company owned by the Patriotic Union of Kurdistan (PUK), imports lower-quality cement from Iran, selling it for less than his higher-quality cement. Rasool suggested that the PUK, which has long-standing ties to Iran, receives kickbacks from Iranian companies to do business in the KRG, although he offered no evidence to back up that assertion. RRT Erbil contacts claim that if investors want to do significant business in the PUK-controlled areas of the KRG, they often have to include NOKAN as a partner. NOKAN-controlled subsidiaries also frequently win contracts by the local government.

Businessmen Seek Assistance

¶6. (C) The Suleymaniyah business representatives said they need a more business-friendly environment to develop the private sector and compete with Iran. They seek business loans and financial support for manufacturing inputs such as plastic, electricity, fuel, and water. In addition, they seek new laws and regulations to support businesses such as intellectual property rights, consumer rights, and anti-monopoly laws. Hawrami argued that one by one, the KRG's ministries should be completely reformed, beginning with the Ministry of Industry.

Comment

¶7. (SBU) While these problems contribute to an increased Iranian economic footprint in Suleymaniyah, corruption, cumbersome regulations and other legacies of Saddam-era economics hinder the private sector across Iraq. The USG, World Bank and various donor countries in the International Compact for Iraq are engaged on several fronts to improve Iraq's investment climate. The USG is also engaged bilaterally through the Strategic Framework Agreement, several ongoing technical assistance programs, commercial programs, trade shows and training for Provincial Investment Commissions. However, changing decades of public sector dominance, reducing corruption, and growing Iraq's private

sector to compete with its neighbors will take time.

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